

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945-04.04

X= City, State
\$m= Amount
\$n= Amount
q= Number

Dear _____ :

You asked for advance approval of your scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship program to fund the education of certain qualifying students.

Our determination

We approved your procedures for awarding scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding scholarships meet the requirements of Code section 4945(g)(1). As a result, expenditures you make under these procedures won't be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code section 117(b)).

Description of your request

Your letter indicates you will operate a scholarship program. The purpose of the program is to pay for qualified education expenses for individuals who attend an accredited two-year or four-year college, university or vocational-technical school.

The program is available to residents of X and its surrounding area who demonstrate academic excellence, leadership potential and a commitment to working for the betterment of their community after graduation. Candidates are generally nominated by members of your distribution or scholarship committees, by administrators at the high school or the technical school that the candidate is attending or has attended, and by representatives from public and private charitable and educational institutions in X. The

nominations detail the candidate's merits, including how the candidate meets your scholarship criteria.

Applicants will be required to submit an application and supporting material, including a report on their academic and professional career or career aspirations, a detailed statement of their training plans and a statement of their future plans and commitments. Letters of reference and personal interviews may also be required.

The criteria used to select recipients includes academic record, demonstrated leadership and participation in school and community activities, work experience, statement of goals and aspirations, unusual personal or family circumstances, and an outside appraisal.

Scholarships normally range from \$m to \$n per year and can renew up to q years or until a bachelor's degree is earned, whichever occurs first, provided that the recipient maintains satisfactory academic performance. You expect to make most payments of scholarships directly to the college, university or vocational-technical school.

You currently publicize the program by word-of-mouth by sharing details about it with X high school teachers and guidance counselors. In the future, you may publicize the program on the internet and in a local newspaper.

You will generally obtain an official report of each recipient's courses taken and grades received in each academic period at least once a year. In the event studies involve the preparation of research papers or projects rather than the completion of a course, you will require a brief report from the institution on the progress of the paper or project at least once a year. The report must be approved by the faculty member supervising the recipient or by another appropriate official. Upon completion of a study at an educational institution, a final report will also be obtained.

You may not require reports if the recipient attends an educational institution described in Section 170(b)(1)(A)(ii) of the Code, the scholarship is paid directly to the educational institution, and the institution agrees to use the scholarship to defray the recipient's expenses or pay scholarship funds to the recipient only if he or she has enrolled at the educational institution and his or her standing at such institution is consistent with the purposes and conditions of the scholarship.

If you discover that funds were or may have been diverted from their specified purposes (in the event reports are missing), you will initiate an investigation. While conducting the investigation, no further payments will be distributed (to the extent possible) until you have determined that no part of the scholarship was used for improper purposes and until any delinquent reports relating to the scholarship have been submitted.

If any funds were used for improper purposes, you will take steps to recover diverted funds or ensure the restoration of diverted funds and the dedication of other funds held by the recipient to the purposes being financed by the scholarship. You will also withhold further payments until (1) you receive the recipient's assurances that future diversions will

not occur, (2) any delinquent reports have been submitted, and (3) you receive assurances that the recipient will take extraordinary precaution to prevent future diversions from occurring.

You represent that you will maintain all records relating to individual scholarships including information obtained to evaluate recipients, identify whether a recipient is a disqualified person, establish the amount and purpose of each scholarship, and establish that you undertook the supervision and investigation of scholarships.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is a scholarship or fellowship subject to the provisions of Code section 117(a).
- The grant is to be used for study at an educational organization described in Code section 170(b)(1)(A)(ii).

Other conditions that apply to this determination

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).

- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations